5-2014

AGRICULTURAL PRODUCTIVITY IN THE GREATER MIDDLE EAST

Zahra Tayebi
UNIVERSITY OF NEBRASKA-LINCOLN, zahratayebi@gmail.com

AGRICULTURAL PRODUCTIVITY IN THE GREATER MIDDLE EAST

by

Zahra Tayebi

A THESIS

Presented to the Faculty of

The Graduate College at the University of Nebraska

In Partial Fulfillment of Requirements

For the Degree of Master of Science

Major: Agricultural Economics

Under the Supervision of Professor Lilyan Fulginiti

Lincoln, Nebraska

May, 2014

AGRICULTURAL PRODUCTIVITY IN THE GREATER MIDDLE EAST

Zahra Tayebi, M.S.

University of Nebraska, 2014

Adviser: Lilyan Fulginiti

The purpose of this research is to determine TFP growth in Iran, Pakistan, Afghanistan, Turkey and Syria considering weather as well as economic and social factors that might be affecting it. A translog production function was used to estimate TFP over the period 1980-2010. Precipitation, temperature, drought and irrigation were included in the analysis. The results show increasing agricultural productivity at the average rate of 2.66% during the period. Temperature and precipitation play a significant role in agricultural production and most frequent extreme drought episodes and irrigation affect, substantially, agricultural productivity growth in the region. The results highlight that respect for political rights and civil liberties, improvement in human capital and an open economy are associated to the heterogeneous agricultural performance across countries in the sample.

Table of Contents

Chapter 1 2
Abstract 2
1. Introduction 2
2. The Model 8
3. Data 11
4. Results and Discussion 15
4.1. Estimation 15
4.2. Agricultural Productivity Growth 16
4.3. Agricultural Productivity Growth and Inefficiency Variables 20
5. Conclusion 21
Chapter 2 23
Abstract 23
1. Introduction 23
2. Data 25
2.1. Standardized Precipitation Index (SPI) 26
3. Estimation: Stochastic Production Frontier 29
3.1. Estimation considering Weather Variables 29
3.2. Estimation without Weather Variables 31
3.3. Agricultural Productivity Growth 32
3.4. Agricultural Productivity Growth and Inefficiency Variables 39
4. Conclusion 40
References 42
Appendix: Tables 47

Chapter 1

AGRICULTURAL PRODUCTIVITY IN THE GREATER MIDDLE EAST

Abstract

This paper aims at inspecting the TFP growth within this more homogenous group including Iran, Iraq, Pakistan, Afghanistan, Turkey and Syria considering economic, as well as political and social factors that might be affecting it. For this purpose, a translog frontier production function was used to estimate TFP over the period 1980-2010. The results show that agricultural productivity is increasing in the region annually at the rate of 2.2%. Furthermore, the results indicate that secondary school enrollment, political rights and civil liberties, years since independence, openness and major conflicts played an important role in the differential performance of the countries in this region.

1. Introduction

Total Factor Productivity (TFP) growth in agriculture represents how efficiently the agricultural industry uses the resources that are available to turn inputs into outputs. It is a key measure of the economic performance of agriculture and an important driver of farm incomes.

In this study the focus is on agricultural productivity growth in the Greater Middle East, specifically in Iran, Iraq, Afghanistan, Turkey, Pakistan and Syria. The agricultural sector, although not one of the most significant sectors in countries rich in mineral resources, is still important to study because of the large proportion of the population living in rural areas (76% in Afghanistan, 31% in Iran, 33% Iraq, 63% in Pakistan, 44% in Syria and 28% in Turkey. In the Greater Middle East countries, agriculture suffers the consequence of the ‘Dutch Disease’ as resources are syphoned away to the oil or other mineral sectors as well as to more lucrative, but illegal, enterprises (poppy cultivation). Some of these countries also have been, and still are involved, in political, military and civil struggles and countries such as Iran and Iraq, have faced or still face strict export and import bans. These trade restrictions, in addition to the other issues mentioned, might be an important factor affecting the growth of the agricultural sector in these countries with important consequences for the well-being of the rural population and a factor affecting migration to the urban centers.

Even as the developing world was quickly adopting new technologies, some studies showed decreasing productivity. If the deterioration in productivity is confirmed, it is a reason for concern since not only a large section of their population is dependent on agriculture in these countries but also their agricultural products are a main source of exports and foreign exchange.

With a glance at global agricultural production, Alston, Babcock and Pardey (2010) showed decrease in global yield growth rates for wheat, corn, soybeans and rice over period 1990-2007 for middle and high income countries. Fuglie (2010) found decrease in global yield growth rates while his results indicate decreasing TFP growth rates in developing economies. On average, agricultural TFP growth rate has decreased from 2.30 percent over the 1990s to 1.90 percent over the 2000s.

The studies which have estimated agricultural TFP in the countries of interest are few. Belloumi and Matoussi, (2009) calculated TFP growth rate for 16 countries in Middle East and North Africa (including Iran, Iraq, Turkey and Syria) and encountered increasing agricultural productivity for the group. Lau and Yotopoulos (1989) found in their study a decrease in agricultural productivity for LDCs in the 1970s but an increase in the 1960, using translog production function. Trueblood (1996) estimated a traditional Cobb-Douglas production function and applied the nonparametric methodology to calculate a Malmquist index using panel data covering 117 countries and 31 years. The study also showed negative productivity growth in a significant number of developing countries. Fulginiti and Perrin (1997, 1998 and 1999) confirm the results obtained earlier by Kawagoe and Hayami (1985) and Lau and Yotopoulos (1989) and Kawagoe et al. (1985). They estimated agricultural productivity by using an output-based Malmquist Index over the period 1961-1985. Their results showed negative productivity growth for some of the 18 countries in their study. They also mentioned that those that tax agricultural had the most negative rates of productivity change.

Agricultural efficiency change indices and productivity indices have been estimated using nonparametric Malmquist indices for 70 developed and developing countries in the period 1961 – 1993 by Arnade (1998). Some of the developing countries in this sample presented negative rates of technical change. Coelli and Rao (2003) calculated growth in agricultural productivity in 93 countries. Results indicated a growth rate of 2.1% in Total Factor Productivity, with efficiency change and technical change equal to 0.9% and 1.2% per year, respectively. Pfeiffer (2003) estimated agricultural productivity growth using a translog production function frontier and a nonparametric

Malmquist productivity index in the Andean region (Bolivia, Colombia, Ecuador, Peru and Venezuela) for the period 1972-2000 and found that productivity growth is positive and increasing over the time for this period.

More directly relevant to the countries in this study, Shahabinejad and Akbari (2010) analyzed agricultural productivity growth in the “Developing Eight” (Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey) over the period 1993 - 2007 using data envelopment analysis (DEA). Their results showed Total Factor Productivity was positive and that technical change is the main source of this growth. They estimated an average technical change 1.5% and a negative average efficiency change (-0.4%) for this region. Results also indicated all countries have improved technology more than efficiency in this period.

Declining productivity seems to be observed in countries suffering from wars such as Iran and Iraq during 1970-2000 (Belloumi and Matoussi, 2009). Fulginiti and Perrin (1998) indicated productivity losses for Pakistan and productivity gains for Turkey during the period 1961-1985 while other literature has shown positive TFP growth rate (0.28%) for Pakistan during 1965-2005 (Ahmed,1987).

The countries of interest in this study have individually been the subject of a few studies. Considering Pakistan, Chaudhry (2005) estimated an increasing TFP, 1.75%, over period 1985-2005. Evenson and Pray (1991) calculated an increasing TFP growth rate 1.07% for 1965-1985. Other studies by Kemal et al (2002), Ali (2004) and Ahmad et al. (2008) indicate that agricultural TFP in Pakistan has grown at an annual average rate of 0.37%, 2.17% and 0.28% around the period 1965-2001, respectively. These studies recommended that some policies such as increasing the area under cultivation and fertilizer at affordable prices for the farmers can accelerate TFP growth in the agriculture sector of Pakistan. Moreover, agricultural TFP macro determinants indicated that policies which improve human capital, enhance credit resources in agriculture, facilitate openness of agricultural economy would improve productivity of Pakistan's agriculture (Ali et al., 2006; Riazuddin, 2006).

A study on the determinants of Total Factor Productivity in Iran in the period 1959-2007 showed that 1% change in skilled human capital leads to 30% increase in Total Factor Productivity and one percent change in physical capital leads to a 55% increase in Total Factor Productivity in the agricultural sector, Khani and Yazdani, (2012). Mohammadrezazadeh et al. (2012) estimated a Translog production function including GDP, human capital, physical capital and employment in the agricultural sector over the period 1967-2008. The average TFP growth rate was 0.03% in this study. Using a Solow Residual model and data on employment, capital stock and value added of various economic sectors, Tahamipour et al. (2008) found agricultural TFP increasing at 2.5% in the period 1991-2008.

Belloumi and Matoussi, (2009) showed that average growth in TFP in Iraq was -2.1% during the period 1991-2000. The declining agriculture productivity in Iraq is the result of wars and the increasing neglect from government over the years. Nin et al. (2003) found a -0.98% TFP growth for Iraq during the period 1965 - 1994. Rao et al. (2004) found a -1.5% TFP growth for Iraq over period 1970-2001 using a Malmquist index.

Regarding macro determinants of TFP growth in the Turkish economy, Acemoglu (2008) showed that growth is the result of more physical and human capital and that institutional reform to create economic freedoms is very important.

Rao et al. (2004) estimated a 0.1% agricultural TFP growth for Turkey using Malmquist indexes during the period 1970-2001. Belloumi and Matoussi (2009) showed that the rate of productivity decrease in Turkey was -1.1% using the same technique and almost the same period. A few papers discuss Afghanistan's agriculture and agricultural productivity. A study by Trueblood and Coggins (2000) using the Malmquist index over the 1961-1991 period estimated declining and TFP growth equal to -1.61%. Oliphant (2007) obtained a -0.5% declining agricultural TFP growth for Afghanistan using arithmetic index for the period 1961- 2006.

Considering Syria, Rao et al. (2004) estimated a TFP growth rate 0.9% during 1970-2001using Malmquist indexes. A study by Belloumi and Matoussi, (2009) using same method during the period 1970-2000 calculated increasing TFP growth rate, 0.2%, that technical change has the main component.

Parametric or non-parametric distance functions have been applied to estimate TFP growth rates in several studies. Estimating a stochastic parametric distance frontier, Fulginiti, Perrin and Yu (2004), Bharati and Fulgini (2007) and Trindade and Fulginiti (2014) estimated the differences in efficiency performance of selected countries using various institutional and economic variables. They indicated that life expectancy and trade intensity play a positive role on increasing efficiency. Headey et al (2005) estimated the impact of different environmental variables on agricultural TFP growth rates using different parametric method. They pointed out that number of agricultural scientist per thousand workers; agricultural expenditure as percentage of GDP and the real rate of assistance to agriculture have significantly positive roles on TFP growth rates.

The countries in this study have had a growing importance in international trade in the past two decades. The agricultural sector plays a significant role in the economic growth of these countries as the share of the agricultural sector in GDP is 8.4% in Turkey, 21.4% in Pakistan, 14.8% in Iran, 8.5% in Iraq, 32.3% in Afghanistan and 17% in Syria. This research aims at inspecting TFP growth in the following countries: Iran, Iraq, Pakistan, Afghanistan, Turkey and Syria. We will consider economic, as well as political and social factors that might be affecting agricultural performance in these countries. A translog production frontier is estimated to examine agricultural productivity performance of a set of six Greater Middle East countries over the period 1980-2010. We incorporate various environmental characteristics of each country to understand efficiency differences across them (Battesse and Coelli, 1995).

The rest of the study is organized as follows. Section 2 describes the methodology and section 3 provides an explanation of the data used in the analysis. The estimation and results are described in section 4. Finally, section 5 contains conclusion and final comments about the results.

2. The Model

This study aims at estimating TFP for these selected countries and to shed light on the potential role of institutional and weather factors in understanding agricultural growth.

We use a production function, as in Fulginiti, Perrin, and Yu (2004), Bharati and Fulginiti (2007), Trindade and Fulginiti (2014), following Solow and Griliches, and many other multi-country studies. Aigner, Lovell and Schmidt (1977) and Meeusen and Van den Broeck (1977) modified the production function and proposed a stochastic frontier production function with presence of technical inefficiencies obtained by a one-sided error term. Following Battese and Coelli (1995) we present the following model:

(1) $\ln Y_{it} = f(x_{it}, t; \beta) + v_{it} - u_{it}$ $\quad\quad i = 1,\dots,I,\ t = 1,\ \dots,\ T$

Selecting a translog functional form, this production frontier is

(2) $\mathrm{Ln}Y_{it} = \alpha_0 + \sum_m \alpha_m ln x_{mit} + \alpha_t t + \sum_{m,n} \beta_{mn} ln x_{mit}\, ln x_{nit} + \frac{1}{2}\sum_m \beta_{mm}(ln x_{mit})^2 + \frac{1}{2}\beta_{tt}(t)^2 + \sum_m \beta_{tm} ln x_{mit}\, t + v_{it} - u_{it}$

where Y_{it} is output of the *i*-th country in time period *t*, $x_{it}$is an *Nx1* vector of the logarithm of inputs for the *i*-th country in time period *t,* β is a vector of unknown parameters, v_{it} are random component assumed to be iid N $(0, \sigma_v^2\ )$ and u_{it} is a non-negative random error distributed iid N (μ_{it}, σ_v^2) representing technical inefficiency across production units (or individual production units effects.) In our case, it accounts for heterogeneity across countries that can cause departures from maximum potential output.

The input production elasticities are:

(3) $$\varepsilon_m = \frac{\partial \ln Y_{it}}{\partial \ln x_m} = \alpha_m + \beta_{mm} \ln x_m + \sum_{n \neq m} \beta_{mn} ln x_n + \beta_{tm} t$$

Technical change is:

(6) $TC = \frac{\partial \ln Y_{it}}{\partial t} = \alpha_t + \beta_{tt} t + \sum_m \beta_{tm} ln x_{mit}$

According to Battesse and Coelli, u_{it} can be specified as a function of z_{it} where z is a vector of independent variables of the i-th country in the t-th year. Technical efficiency is measured as:

(4) TE= exp ($-u_{it}$) = δz_{it}

Note that δ is a vector of parameters to be estimated. Having calculated technical change (TC) and technical efficiency (TE), change in Total Factor Productivity can be computed as:

(5) TFP = TC + EC.

The difference in technical efficiency from period (t) to period (t+1) is defined as efficiency change (EC). The technical efficiency measure takes values of zero to one where one indicates full technical efficiency. Technical efficiency reflects differences across countries. The frontier methodology lends itself to the inclusion of potential factors of country heterogeneity which we refer to as efficiency changing variables.

Equations (2) and (4) are estimated simultaneously by maximum likelihood methods to obtain the α's, β's and δ's.

This model enables us to test if inefficiency effects are present in the error term.$\gamma = \frac{\sigma_u^2}{\sigma_u^2+\sigma_v^2}$, represents the proportion of the error term due to inefficiency effects. It lies in the range of 0-1. A value of 1 indicates that inefficiency effects largely contribute to the error term and a value of zero reflects that the error is just white noise.

3. Data

In order to estimate the production function, we follow Fulginiti, Perrin, and Yu (2004), Bharati and Fulginiti (2007), Trindade and Fulginiti (2014) closely. A panel data set for the six selected countries including Iran, Iraq, Afghanistan, Pakistan, Turkey and Syria is collected for the time period 1980-2010. Data on traditional agricultural inputs (labor, land, livestock and machinery) and output were obtained from the FAOSTAT website. Fertilizer input data provided by International Fertilizer Association data was used that seems to be more recent and accurate.

Agricultural *output* is gross agricultural production in thousands of international dollars. This is an index (base 2004-2006) provided by FAO that uses a set of weighted commodity prices.

Agricultural *land* is total arable and permanent crops and pastures in thousands hectares. Afghanistan (-2%), Iraq (-22%) show a decrease in use of land while Iran (+40) and Pakistan (+6) show increase.

Agricultural *labor* is measured as the number of thousand persons who are economically actively involved in agricultural production. Afghanistan (+87%), Pakistan (+48%) and Syria (+107%) had big increases in the amount of labor employed, while Turkey (-17%) shows decreases.

Livestock is a weighted average of the number of animals in farms presented in cattle equivalents (Hayami and Ruttan, 1985).

Fertilizer is measured in metrics tons of Nitrogen, Potassium, and Potash (N plus P_2O_5 plus K_2O). This variable is very volatile. Pakistan (+256%) and Iran (+142%) have large increases in fertilizer use, while Afghanistan (-3%) shows a decrease.

Machinery is defined as number of agricultural tractors. This variable increased for all countries during this period, Iraq (+135%), Iran (+302%), Pakistan (+290%), Syria (+299%) and Turkey (+131%), while Afghanistan had a smaller increase of +16%.

Table 1 - Summary Statistic: Output and Inputs
Region: The Greater Middle East - Period: 1980-2010

Variable	Unit	Source	Mean	Max	Min	SD	Growth Rate(%)
Output	Thousands of constant 2004-2006 US dollars	FAO	80647025.6	112735676	49196456	19918096	2.74
Fertilizer	Metric Tons	International Fertilizer Institute	6070.31	8446.4	3193.8	1505.724	2.73
Land	Thousands hectare	FAO	84068.06	86917	81279	1556.473	0.05
Labor	Thousands person	FAO	113799.6	126508	96984	9636.015	0.86
Machinery	No. of tractors	FAO	1398936	1867510	662320	375300.9	3.44
Livestock	Thousands cattle equivalent	FAO	235313792.9	247770681	215908098	7979184.09	0.46

Figure 1 depicts the cumulative frequency distribution (CDF) of the growth rates of inputs and outputs. This graph also demonstrated that the biggest changes are in fertilizer input over the period 1980-2010. Most of the countries used very little fertilizer at the start of the period of analysis. The median growth rate is about 2% and about 75% of the growth rates for the inputs and for output are between -3% to 3%. The output CDF lies mostly to the right side of the inputs CDF. This means that output growth rates are higher than growth rates of the inputs (except machine). Median growth rates for machine and output are around 2%, for fertilizer around 4%, for labor around 1% and for land and livestock around 0% or less.

Figure 1- Cumulative Frequency Growth Rate (%) of Output and Inputs
Region: The Greater Middle East - Period: 1980-2010

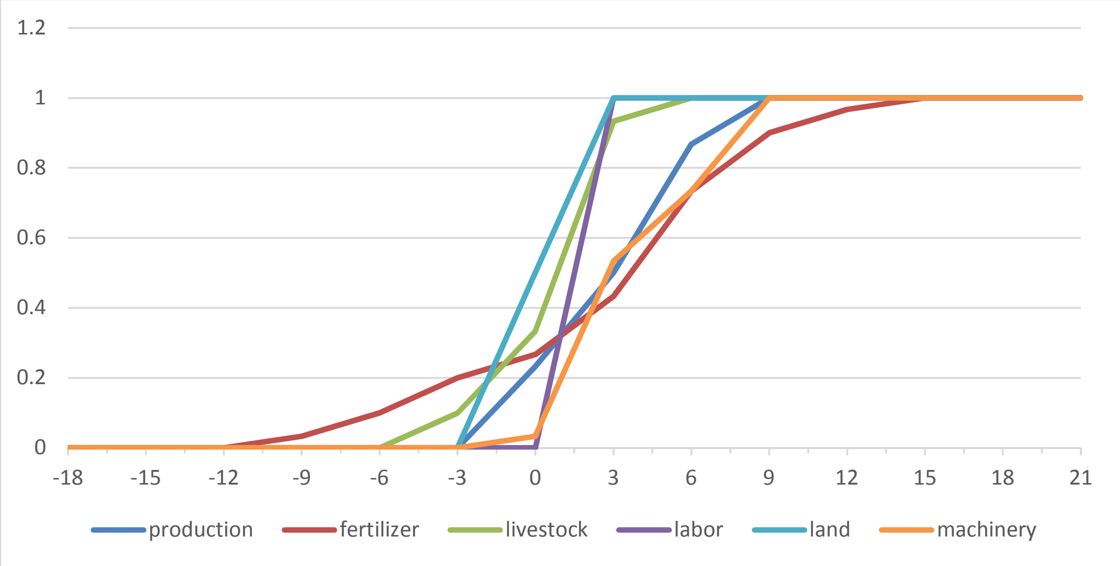
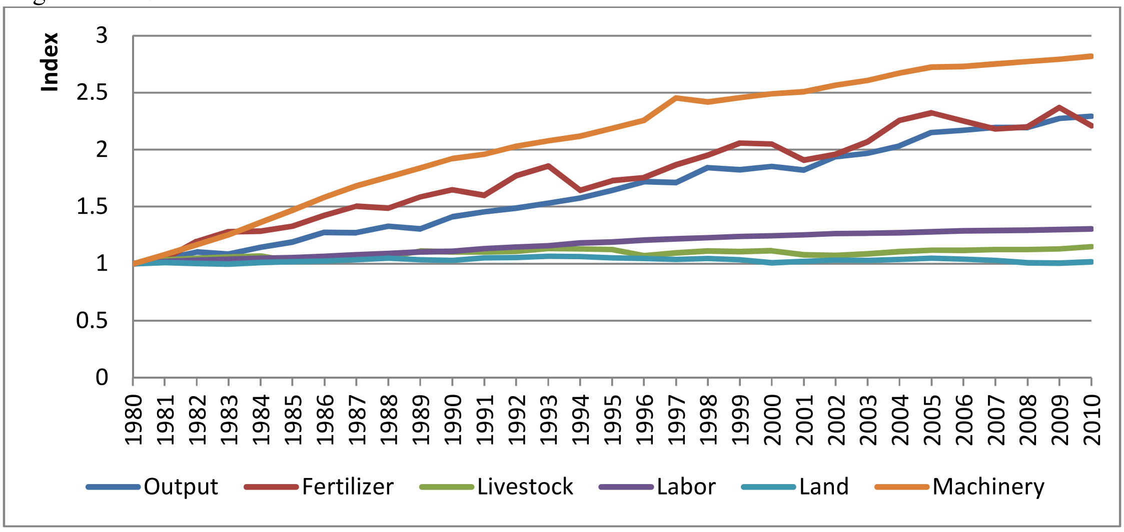


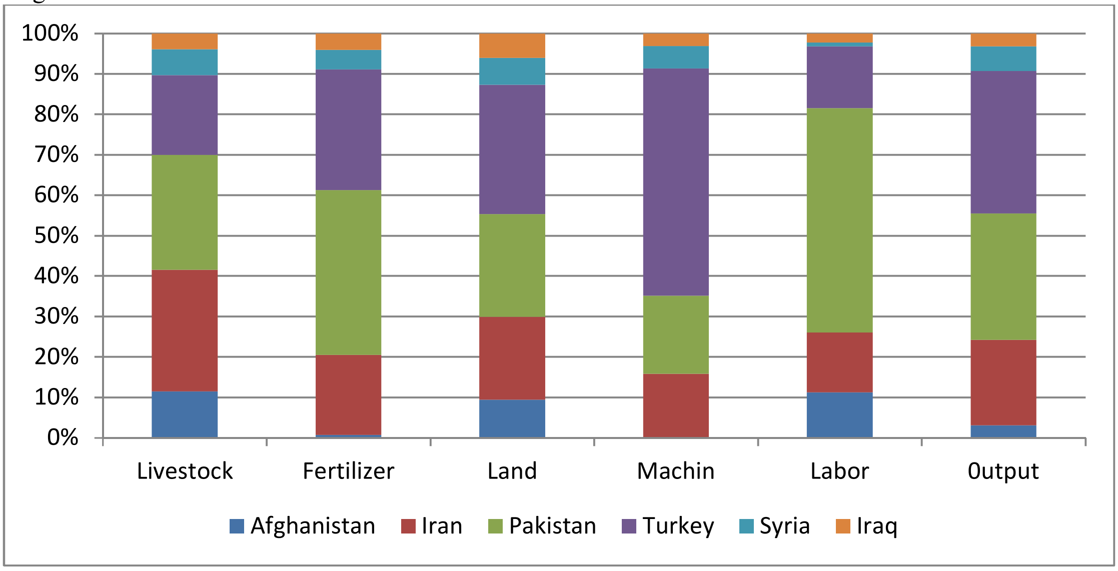
Figure 2 illustrates the evolution of the variables during 1980-2010 for the region in index form. A smooth evolution for all the variables can be observed. Machinery has increased more than other inputs. Output and fertilizer show a monotonic increase during the period. We can observe also a relative constant use of land during the period.

Figure 2: Evolution of inputs and output (Index=1980)
Region: The Greater Middle East - Period: 1980-2010



Regarding the scale of production, Pakistan and Turkey dominate and produce 66% of the total output of the region. They use 72% of land. Pakistan is relatively capital intensive while Turkey is labor intensive. Iran contributes 20% of the region's output followed by Syria with close to 8% of production. Figure 2 shows the average output and input allocations across the countries.

Figure 3 - Average Output and Inputs Shared by the Countries
Region: The Greater Middle East - Period: 1980-2010



In this analysis, three kinds of efficiency changing variables are considered to determine if differences in resource quality and socio-political characteristics can explain the difference in country performance. These variables are associated with the mean of the one-sided error term. Three input quality variables were selected: (i) labor quality proxied by the *secondary school enrollment ratio* taken from the World Development Indicators; (ii) health quality proxied by *life expectancy* from UNDP website; and iii) land quality proxied by the *irrigation ratio* obtained from FAOSTAT (the percentage of agricultural land that is equipped for irrigation.)

The institutional variables are as follows: (i) *Independence* is the number of years since independence, obtained from the Central Intelligence Agency World Factbook; (ii) *Arm conflict* represented by two dummy variables to indicate minor conflict or major conflict like war (contrasted with no conflict), using data from Gleditsch et al.; (iii) *Political rights and civil liberties* captured by a dummy variable categorizing countries as partially free (contrasted with not free) from the Freedom House index of political rights and civil liberties; and (iv) the *trade openness ratio* or trade intensity ratio which is defined as the ratio of the sum of exports and imports to real GDP per capita, obtained from the World Penn Tables.

Table 2 shows the summary statistics of efficiency changing variables.

Table 2 - Summary Statistic-Efficiency Variables
Region: The Greater Middle East - Period: 1980-2010

Variable	Unit	Source	Mean	Max	Min	SD
Labor Quality	Secondary School Enrollment Ratio	World Development Indicators	60.44	97.81	20.56	17.44
Independence	Year since Independence	Central Intelligence Agency World Factbook	50.16	91	1	20.42
Health Quality	Life Expectancy	UNDP website	62.27	75.01	39.19	10.03
Openness	2005 constant price in percent	World Penn Table	64.94	254.11	11.45	57.88
Irrigation	Percent of agricultural land irrigated	FAOSTAT	22.95	76.57	3.83	21.62

4. Results and Discussion

4.1.Estimation

The stochastic frontier production function (equation 2) was estimated using Coelli's Frontier package 4.1. The value of the inefficiency variance parameter (γ) is 0.69 and this value is highly significant indicating that a significant portion of the error variance is due to inefficiency effects therefore rejecting a simple OLS estimation. The average production elasticities for all inputs have been computed using equation (3). The average production elasticities for this estimation are: land, 0.278, labor, 0.085, fertilizers, 0.515, tractors, 0.328, and livestock, 0.071.[1]

4.2. Agricultural Productivity Growth

Average agricultural output growth for the region was 2.74% per year. TFP is increasing and it is estimated at 2.20% per year during this period. Results showed that Iran with 4.25% and Pakistan with 3.44% had the largest increases in agricultural output per year. Estimated TFP growth rate for Iran is 3.41% and for Pakistan is 2.52%. Afghanistan output increased by 1.35% but its TFP growth rate is -0.22%, the smallest in this set of countries. Average TFP growth rate in our study is positive and consistent with results in Fuglie (2010) for West Asia (excludes Pakistan and Afghanistan) over the period 1961-2007, and in Shahabinejad et al. (2010) for the Developing Eight for 1993-2007. The TFP estimates for Iran is higher than 0.73% estimated by Rezaei et al (2008) over period 1971-2005 and for Afghanistan is higher than -0.5% calculated by Oliphant during 1961-2006. Turkey also experienced a TFP growth, 2.11%, which is much higher than -0.76% TFP growth founded by Nin et al. (2003) during the period 1965 -1994 period.

Figure 4 illustrates the weighted average TC, EC and TFP growth rates, using output as weights. Figure 5 shows that the most efficient countries are Iran followed by Pakistan and Turkey while Afghanistan and Iraq are the most technically inefficient countries.

---

[1] Elasticity estimates were negative for fertilizers at 5.91%, for livestock at 40.86%, for machinery at 14.51% , for labor at 33.87% and for land at 4.83% of the data points.

Figure 4– Average Weighted TC, EC and TFP Growth Rate
Region: The Greater Middle East - Period: 1980-2010

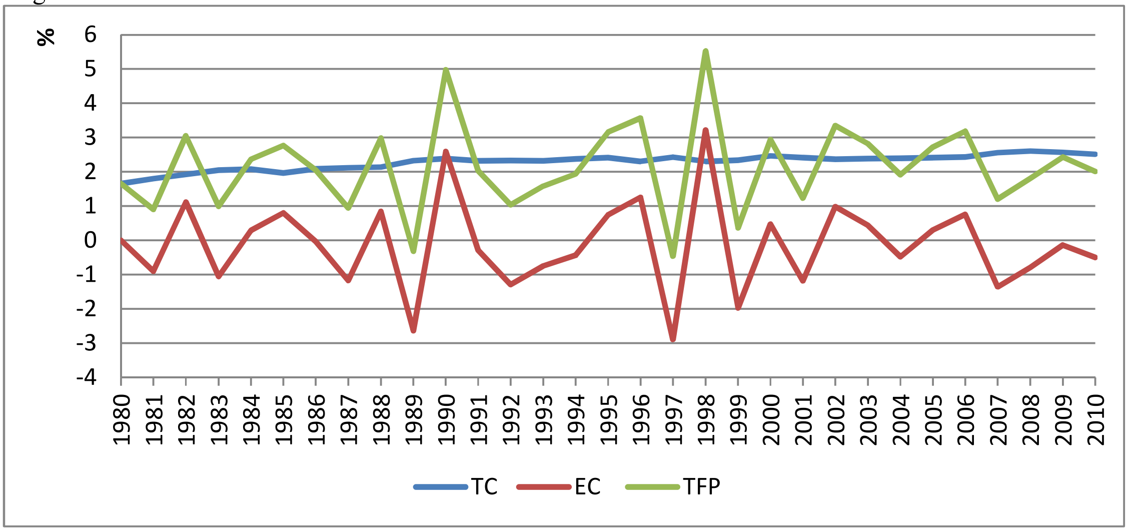
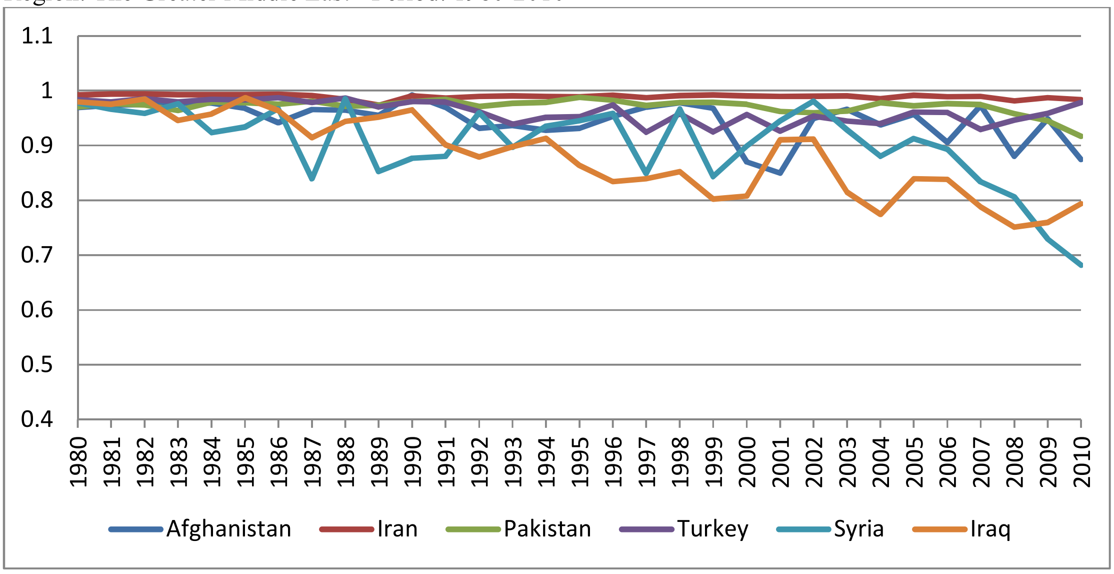
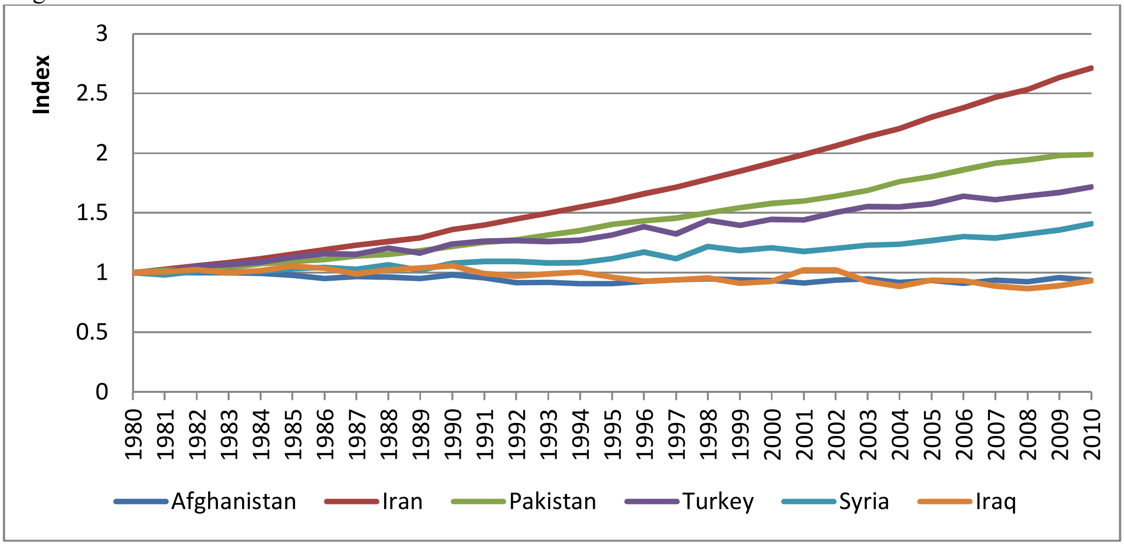


Figure 5- Average Efficiency Levels
Region: The Greater Middle East - Period: 1980-2010



According to figure 6, Iran and Pakistan are the best performers. Afghanistan, on the other hand, is the poorest.

Figure 6 - TFP Index (1980=1)
Region: The Greater Middle East - Period: 1980-2010



The TFP growth rate estimations are in table 3 by decades. The average TFP growth rate is positive and slightly increasing with respect to previous decades in this region. The productivity growth rate improved from 2.05% in the 1980s to 2.12% during the 2000s. Comparing our results with the estimate by Fuglie (2010) during 2000s (1.34%) showed that our estimates for this decade are slightly higher. Fuglie (2010) also indicated that the TFP growth rate is increasing during 1980-2009 for West Asia which includes most countries in our study (except Pakistan and Afghanistan).

Table 3 - Average TFP, technical change (TC), and efficiency change (EC) estimates from a translog stochastic frontier (%)
Region: The Greater Middle East - Period: 1980-2010

	TC			EC			TFP		
Country	1980-1989	1990-1999	2000-2010	1980-1989	1990-1999	2000-2010	1980-1989	1990-1999	2000-2010
Afghanistan	-0.37	0.12	-0.29	-0.14	0.43	-0.28	-0.38	0.55	-0.57
Iran	3.10	3.45	3.66	-0.01	0.10	-0.04	3.08	3.55	3.6
Iraq	0.77	0.29	0.17	0.38	-0.87	0.14	1.15	-0.58	0.31
Pakistan	1.83	2.63	2.83	-0.06	0.29	-0.33	1.76	2.92	2.5
Turkey	2.23	1.90	1.64	-0.19	-0.67	0.32	2.04	1.23	2.0
Syria	0.76	1.62	2.42	-0.19	-0.67	0.13	0.57	0.95	2.5
Greater Middle East	2.06	2.33	2.42	-0.01	-0.28	-0.30	2.05	2.06	2.12

Technical change has been the main contributor to TFP growth in these countries during this period. This is consistent for all the countries except Afghanistan during 1980s and 2000s. Results show that the EC component has decreased its contribution to the TFP growth. This means that the gap between best and worst performing countries has increased during this period. All countries with the exception of Afghanistan (-0.57) show a positive rate of TFP growth during the three decades. In general, there is an increase in the TFP growth rate for the 2000s (2.12%) with respect to the 1980s (2.05%). TFP growth rate has increased for Iran, Pakistan and Syria, decreased for Iraq and Afghanistan and has remained almost unchanged for Turkey over the period 1980-2010.

As table 4 illustrates, technical change has been the main contributor to TFP growth (2.33% average per year versus -0.13% efficiency change). Iran has the highest average TFP growth rate, followed by Pakistan, Turkey and Syria.

Table 4 - Average TFP Growth Estimates (%) per Country
Region: The Greater Middle East - Period: 1980-2010

Country	TC	EC	TFP	Output
Afghanistan	-0.30	0.08	-0.22	1.37
Iran	3.42	-0.01	3.41	4.25
Iraq	0.48	0.14	0.62	1.42
Pakistan	2.65	-0.13	2.52	3.44
Turkey	1.98	0.13	2.11	1.93
Syria	1.63	0.11	1.74	2.98
Greater Middle East	2.33	-0.13	2.20	2.74

The average output growth rate for the region over the period 1980-2010 was 2.74% per year, with Iran growing the most (4.25%) and Afghanistan the least (1.37%). Based on a growth decomposition analysis in table 5, the average output growth can be decomposed into a scale increase of 2.20% and a 0.53% increase in TFP. This shows that, on average, 20% of the output growth can be attributed to increases in productivity. Estimation shows that, on average, 27% for Iran, 30% for Pakistan, 28% for Turkey, 26% for Syria and 10% for Iraq of the respective output growth are attributed to TFP change.

Table 4 – Growth Decomposition (%)
Region: The Greater Middle East - Period: 1980-2010

Country	Output Growth	Input Change	EC Change	TC Change	TFP Change
Afghanistan	1.37	1.36	-0.885	0.887	0.002
Iran	4.25	3.06	0.274	0.915	1.19
Iraq	1.42	1.27	-0.750	0.900	0.15
Pakistan	3.44	2.43	0.081	0.928	1.01
Turkey	1.93	1.38	-0.392	0.942	0.55
Syria	2.98	2.17	-0.094	0.904	0.81
Greater Middle East	2.74	2.20	-0.379	0.913	0.53

4.3. Agricultural Productivity Growth and Inefficiency Variables

Our purposes have been to obtain measures of agricultural productivity in this set of countries and also to explore the potential role of institutional variables in understanding discrepancy in the production inefficiency among the countries. The Log Likelihood Ratio test (LR) was performed and the null hypothesis of no inefficiency effects was rejected at the 1% level of significance. There is significant technical inefficiency. The results of the inefficiency effects model are shown in table A-appendix and table 5. The results highlight that life expectancy and minor conflict are not associated with the variation in production efficiency among these countries. Interestingly, the estimates on political rights and civil liberties, years since independence, openness, major conflict and irrigation are significant. These variables are strongly associated with production efficiency variation across countries in the sample.

Table5- Inefficiency Effects Model
Region: The Greater Middle East - Period: 1980-2010

Variable	Coefficient	Standard Error	t value
Intercept	-0.9108	0.3253	-2.8001
Education	-0.0006	0.0004	-1.5044
PR&CR	-0.0000	0.0000	-2.1524
Independence	-0.0135	0.0038	-3.5307
Openness	-0.0082	0.0032	-2.5813
Life expectancy	-0.0001	0.0002	-0.3539
Minor conflict	0.0093	0.0034	2.7716
Major conflict	-0.0677	0.0266	-2.5456
Irrigation	-0.0056	0.0019	-2.9193

According to these results, change in Political rights and civil liberties would impact productivity gains or losses and it seems there is sufficient opportunity for all these countries to improve agricultural efficiency and productivity by enhancing political rights and civil liberties. A significant coefficient of the openness variable indicates that a more open economy would have better performance. The results illustrate that the longer a country has been independent, the better the performance of the economy. The significant coefficient estimated for secondary school is important as it implies that policies which improve human capital can improve agricultural productivity in this region.

5. Conclusion

The purpose of this study is to estimate agricultural productivity growth during the 1980-2010 periods in the Greater Middle East. Previous studies indicated a low or declining agricultural productivity. Agricultural TFP growth rates were estimated for the region using a parametric stochastic frontier approach. Various institutional and economic characteristics of each country were considered in the estimation to examine the differences in performance across them.

Results showed that output growth in the region during 1980-2010 was 2.74%. Average productivity growth was 2.2% and it increased from 2.05 % to 2.12% by the end of the period. Productivity growth contribution to output growth was 20% with the rest attributed to growth in traditional inputs. The best performer was Iran (3.41%) followed by Pakistan (2.52%) and Turkey (2.11%) while the worst performance was Afghanistan (-0.22%). We found that secondary school enrollment, political rights and civil liberties, years since independence, openness and major conflicts played an important role in the differential performance of the countries in this region.

Chapter 2

AGRICULTURAL PRODUCTIVITY AND CLIMATE CHANGE IN THE GREATER MIDDLE EAST

Abstract

The main purpose of this research is to determine the potential impact of weather variables on agricultural production for Afghanistan, Iran, Pakistan, Turkey and Syria over the period 1980-2010. A translog production function was applied to estimate TFP over the period 1980-2010. Precipitation, temperature, drought and irrigation were included in the analysis. The results indicate increasing agricultural productivity during the period with innovations contributing approximately 30% to agricultural output growth. Temperature and precipitation positively play a significant role in agricultural production and most frequent extreme drought episodes and irrigation affect, substantially, agricultural productivity growth in the region.

1. Introduction

Climate change is a critical global environmental problem (Aldy et al. 2009). According to the International Panel on Climate Change (IPCC), climate change will affect the Middle East and North Africa region in the coming decades. Decrease in precipitation and higher temperatures will increase the occurrence of droughts while increasing population and agricultural production will enhance the demand for water. Hence, the productivity of the agricultural sector might be affected by climate change.

Changes in climate patterns might lead to damage in the agriculture sector and could be counterproductive to an economic reform process.

Food security is an economic and political concern in many countries in the Greater Middle East. Given that the availability of water, either from irrigation or precipitation, intensely affects food production, climate change might result in higher prices as well as in increased volatility in food prices with consequences for food security and political stability.

FAO (2001) assessed the impacts of rainfall on agricultural production and indicated that there are important interaction between production and climate variability. Many studies have shown the effect of climate changes on agricultural productivity. They found that a decrease in water availability could play an important role in reducing agricultural productivity. (Parry et al. 2004; Tao et al. 2003, 2008; Xiong et al. 2007; Schlenker and Lobell 2010). Kumar et al. (2004) and Sivakumar et al. (2005) concluded that changes in precipitation patterns will affect agricultural production.

Drine (2011) indicated that drought and lower precipitation are major factors affecting agricultural productivity in the North Africa and Middle East (MENA) countries. Using a Ricardian approach, Mendelsohn *et al*. (1994) determined the impacts of climate on US farmland prices and net revenues and found that the climate effects were significant. Several studies such as Rowhani *et al.* (2011), Müller *et al.* (2011), Schlenkler and Lobell (2010), O’Connell and Ndulu (2006), Collier and Gunning (1999), Bloom and Sachs (1998), Rosenweig and Parry (1994) have pointed out the potential impact of climatic change on the performance of agriculture in Sub Saharan Africa. Sanghi *et al*. (1998) argued that the effect of climate change on agricultural productivity is negative in Brazil. Moreover, using actual sale price of land at the farm's level, Maddison (2000) determined the marginal value of characteristics of several farmlands in England and Wales. The results showed that frost days in winter play a significant role in agriculture and climate and soil quality affect farmland prices. Kibonge (2013) show that weather variability affect agricultural productivity in Sub Saharan Africa. The results highlight that precipitation and temperature have a positive impact on production up to a certain threshold.

This study follows Kibonge (2013) closely and performs an analysis of agricultural productivity growth in Iran, Afghanistan, Pakistan, Turkey and Syria (referred to as the Greater Middle East) with the purpose of assessing the effects of weather variables on TFP growth in this region. Due to a limitation on data availability for monthly precipitation for Iraq, we removed this country from the analysis. We construct a Standard Precipitation Index for these countries as a proxy for drought and use it, along with precipitation and other variables in a stochastic frontier production function from where we obtain estimates of the TFP growth rate and the contribution of weather variables to total output growth in the region.

2. Data

In addition to the output, inputs and efficiency changing variables described in chapter 1, section 3, we add a measure of precipitation and temperature and a measure of drought. The data set on precipitation and temperature is obtained from National Climatic Data Center (NCDC).

Temperature is presented as the average monthly temperature in degree Celsius.

Precipitation is defined as the average monthly precipitation in millimeters. This variable is the average precipitation of all stations for which recent data was found. We could not found data on these two variables in the agricultural area of Iraq. The stations and location characteristics are displayed in the map.

Drought is a weather variable captured by the Standard Precipitation Index (SPI). We follow Kibonge (2013) and construct a Standard Precipitation Index based on monthly precipitation then count the number of months with SPI of -1 and less to proxy drought.

2.1.Standardized Precipitation Index (SPI)

SPI is the most common indicator of drought proposed by McKee *et al.* (1993, 1995) to define and monitor drought. This index indicates a drought or wet event at a certain time period for any location that has precipitation records. This index is calculated by fitting a gamma distribution for monthly precipitation at different time steps (1, 3, 6, 9 and 12 months), and then converting to the normal distribution with mean zero and a variance of one. The SPI indicates a Z-score, or the number of standard deviations that an event is from the mean. This index can be calculated for different durations, weeks or months. We choose a 1-month SPI in this study as it is more relevant for agricultural purpose and provides an indication of soil moisture and crop stress in agriculture (Kibonge, 2013). SPI takes the values between -0.99 and 0.99 for near normal situations, -1 to -1.49 for moderately dry, severely dry -1.5 to -1.99 for severely dry and values less than -2 for an extremely dry period. Any values greater or equal to 1 indicate a wet period. Drought events occur when the SPI is continually negative and has an intensity of -1.0 or less (McKee *et al*., 1993).

In this study, SPI values were calculated based on monthly precipitation data from weather stations for the following countries: Iran, Afghanistan, Pakistan, Turkey and Syria over the period 1980-2010. The data is obtained from National Climatic Data Center (NCDC). A drought variable is then created for each country and stations indicating the number of months in a year with SPI values of -1 and less (Kibonge, 2013). In order to provide an indicator for crop stress and soil moisture in agriculture, the 1-month SPI was used to construct the yearly drought variable.

Table 1 - Summary Statistic: Weather Variables
Region: The Greater Middle East - Period: 1980-2010

Variable	Unit	Source	Mean	Max	Min	SD
Precipitation	Millimeters	NCDC	221.99	630.77	43.04	161.68
Temperature	Degree Celsius	NCDC	16.01	27.26	8.33	4.77
SPI	-	NCDC	0.37	1.23	-1.90	0.34
Drought	No. of months in a year with SPI Values of -1 and Less.		0.68	4	0	1.02

Summary Statistic of Weather Variables and Station Locations on the Map
Region: The Greater Middle East- Period: 1980-2010

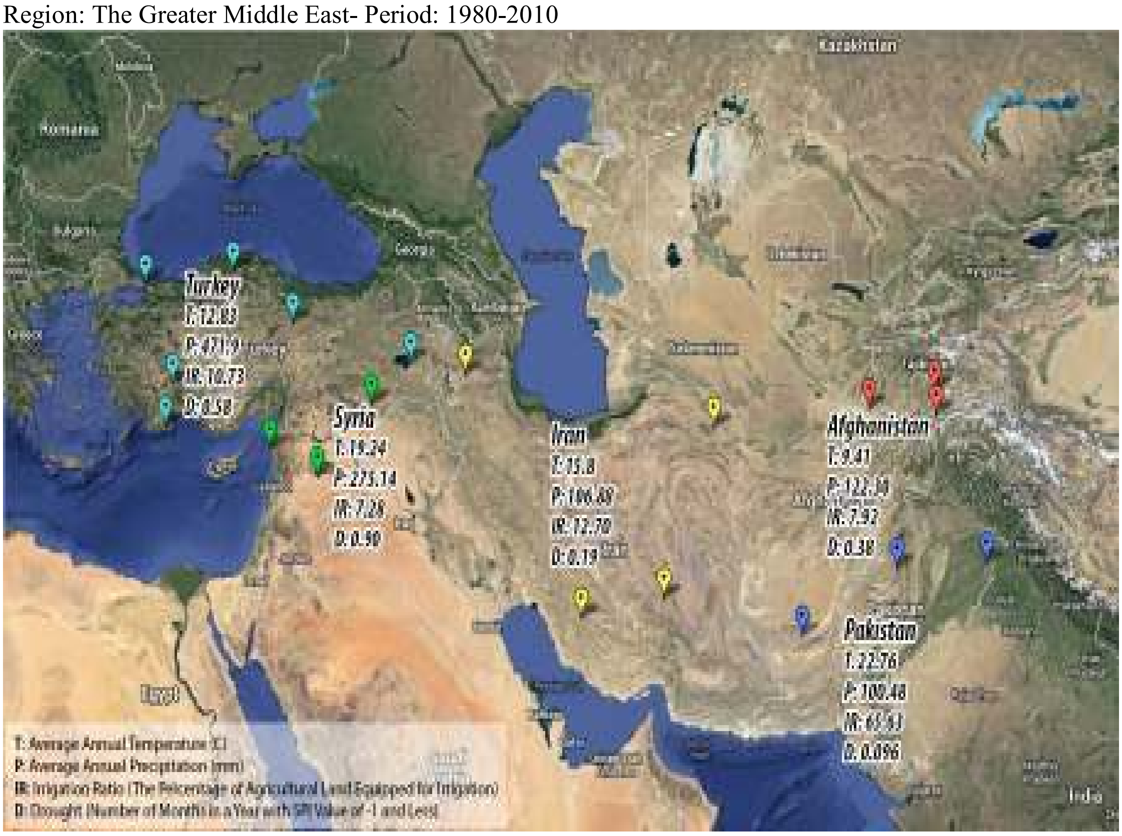


Figure 1 illustrates the average annual precipitation in available and reliable weather stations for each country over the period 1980-2010. This variable is very volatile. Turkey (471.1 mm) has the most and Iran and Pakistan have the lowest average annual precipitation in the region considering our selected weather stations. Straight lines are due to missing data for Iran (period 1980-88) and Afghanistan (period 2001-2010). It should be mentioned that all these stations are located in the agricultural areas.

Figure 1- Average Annual Precipitation (mm)
Region: The Greater Middle East - Period: 1980-2010

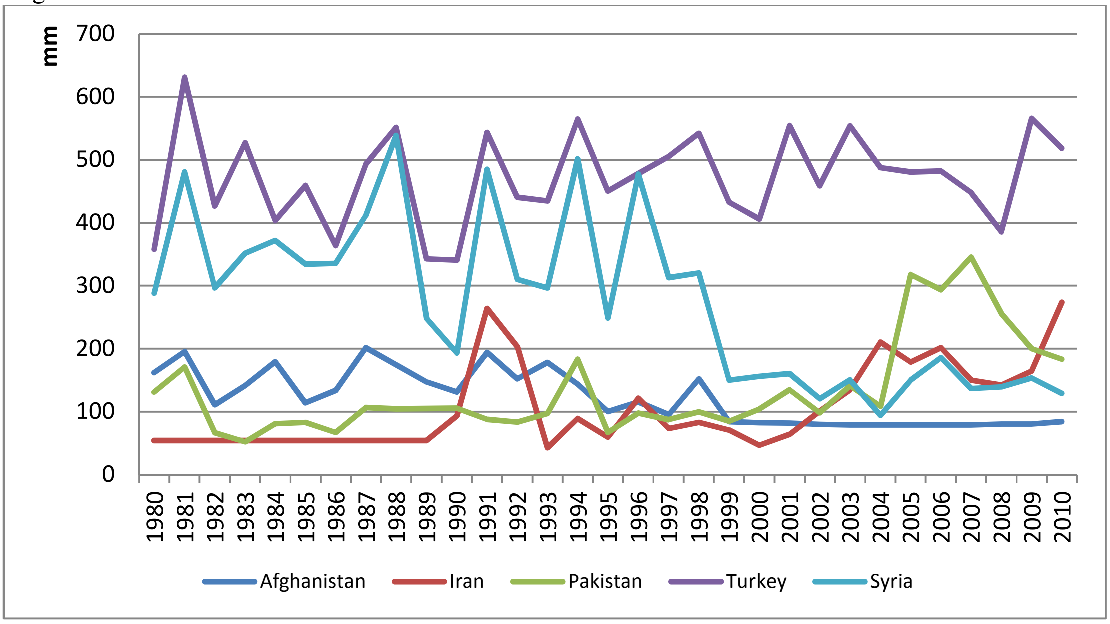
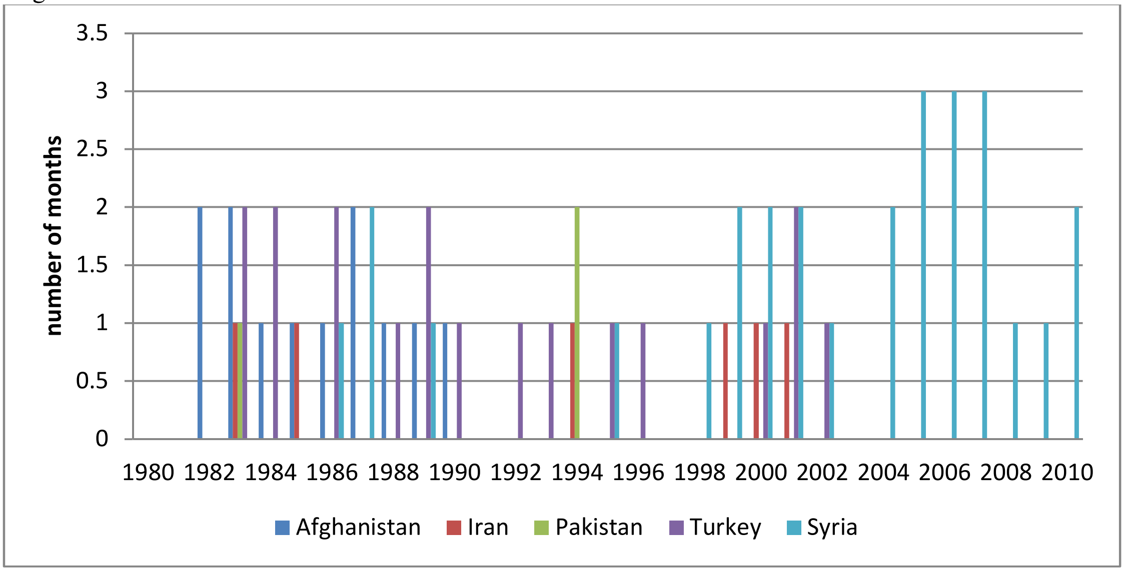


Figure 2 displays the drought episodes for each country during 1980-2010. Drought episodes calculated based on the 1 month-SPI developed in this study.

Figure 2- Drought Episodes, based on SPI index
Region: The Greater Middle East - Period: 1980-2010



Afghanistan and Turkey have experienced the most drought episodes in the 1980s followed by Iran and Turkey in the1990s and Syria in 2000s. The highest number of drought events occurred in Syria during. The estimates indicated that Syria suffered from several drought events during the entire period, particularly in the 2000s.

3. Estimation: Stochastic Production Frontier

3.1.Estimation considering Weather Variables

A translog production function is estimated using a Maximum Likelihood (ML) frontier approach. In addition to the five traditional inputs (land, labor, livestock, fertilizer and machinery), we include precipitation and temperature. The function estimated is (1):

(1)
$$\ln Y_{it} = a_0 + \sum_{j=1}^{7} b_j x_{ijt} + \frac{1}{2}\sum_{j=1}^{7} c_{jj} x_{jj}^2 + \sum_{j=1}^{7}\sum_{k>j}^{7} c_{jk}\, x_{ijt} x_{ikt} + b_t t + \frac{1}{2} b_{tt} t^2 + \sum_{j=1}^{7} b_{jt} x_{ijt} t + \varepsilon_{it}$$

where Y_{it} is agricultural output of country *i* during year *t*; *x*'s are logarithms of the inputs including precipitation and temperature; *t* is time from 1 to 31 (as a proxy for technical change); *a*, *b* and *c* are parameters to be estimated, and ε is an error term.

Precipitation and temperature are included in the production function following specification of yield equations in other studies that focused on climatic effects (Schlenker and Roberts,2009; Schlenker and Lobell,2010). This allows us to determine the direct effects of these variables on the level of production. Drought and irrigation are introduced as efficiency changing variables to capture potential differences in performance across countries.

The Maximum-Likelihood approach of FRONTIER 4.1 (Coelli, 1996) was used to estimate the 53 parameters in Eq. (1), 9 of which are the efficiency changing variables. These estimates are referred to as the full model. Following Fulginiti, Perrin and Yu (2004), we use the likelihood ratio test to compare functional forms nested within the model in equation (1) and use the principle of downward selection to eliminate non-significant terms of the full model, one by one, as suggested by Jorgenson and Gallant (1979). This model is referred to as the reduced model. There were 7 non-significant parameters in the full model including the interactions of precipitation with machinery (x1x6), with fertilizer (x4x6), with labor (x5x6), with temperature (x6x7), and with land (x2x6) as well as the interactions of machinery with land (x1x2) and with fertilizer (x1x4). We started by testing the most restrictive alternative hypothesis, model without all insignificant variables, reduced model, against the least restrictive null hypothesis, which referred to full model. Log likelihood ratio test (14.20) indicates that full model can be rejected at 5% significant level. Then we discard the x1x6, x4x6, x5x6, x1x2 and x1x4 from the full model one by one and LRT show that we can't reject the reduced model, in any cases. Log likelihood ratio test for x2x6 and x6x7 indicate that we can reject the null hypothesis, reduced model, so these variables are necessary in the model. Table 2 shows the results of performing Log Likelihood Ratio.

Table 2- Results of Performing Log Likelihood Ratio include weather variables

Null Hypothesis	Log Likelihood Ratio Test	
Full Model	14.26	Reduced Model could not be rejected at 5%.
X1X6	0.15	Null hypothesis could not be rejected at 5%.
X1X6, X4X6	0.21	Null hypothesis could not be rejected at 5%.
X1X6, X4X6, X5X6	4.11	Null hypothesis could not be rejected at 5%.
X1X6, X4X6, X5X6, X1X2	5.10	Null hypothesis could not be rejected at 5%.
X1X6, X4X6, X5X6, X1X2,X1X4	4.70	Null hypothesis could not be rejected at 5%.
X1X6, X4X6, X5X6, X1X2,X1X4, X6X7	12.72	Null hypothesis could be rejected at 5%.
X1X6, X4X6, X5X6, X1X2,X1X4, X2X6	12.83	Null hypothesis could be rejected at 5%.

The value of the inefficiency variance parameter (γ) is 0.96 and it is highly significant indicating that a significant portion of the error variance is due to inefficiency effects. The average production elasticities for this estimation are: land, 0.331, labor, 0.150, fertilizers, 0.346, tractors, 0.204, livestock, 0.009, precipitation, 0.00028 and temperature, 0.0046.[2]

3.2.Estimation without Weather Variables

We use the likelihood ratio test to compare functional forms nested within the model and use the principle of downward selection to define reduced model. There were 6 non-significant parameters in the full model including the interactions of machinery with land (x1x2), with fertilizer (x4x1), with labor (x5x1) and interaction of land with labor (x2x5), and with fertilizer (x2x4) as well as the interactions of fertilizer with labor (x4x5). Table 3 shows the results of performing Log Likelihood

[2]Percentage of monotonicity violation is 7.42%, 35.43%, 8.5%, 41.2% and 18.11% respectively for land, labor, fertilizers, livestock and machinery.

Ratio test. Likelihood-ratios tests for the x1x4 and x2x4 indicated variables are not necessary.

Table 3- Results of Performing Log Likelihood Ratio excludes weather variables

Null Hypothesis	Log Likelihood Ratio Test	
Full Model	12.70	Reduced Model could not be rejected at 5%.
X1X4	0.16	Null hypothesis could not be rejected at 5%.
X1X4, X2X4	0.23	Null hypothesis could not be rejected at 5%.
X1X4, X2X4, X1X2	7.91	Null hypothesis could be rejected at 5%.
X1X4, X2X4, X1X5	7.88	Null hypothesis could be rejected at 5%.
X1X4, X2X4, X2X5	8.03	Null hypothesis could be rejected at 5%.
X1X4, X2X4, X4X5	7.94	Null hypothesis could be rejected at 5%.

3.3. Agricultural Productivity Growth

3.3.1. Agricultural Productivity Growth without Weather Variables

The main purpose of this section is a comparison between calculated TFP considering weather variables and TFP without them. Iraq is not included in this analysis due to lack of consistent weather data.

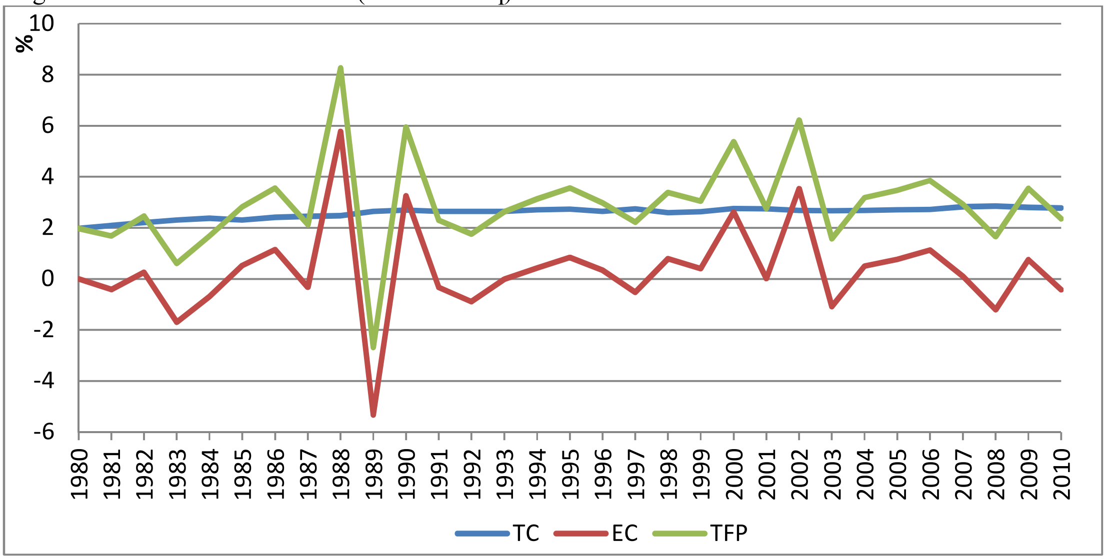
Average agricultural output growth for the region (excluding Iraq) was 2.8% per year. TFP's growth rate is 2.93% per year during this period. Table 4 shows growth rates per decade. TFP growth has been positive and slightly increasing in 1990s with respect to previous decade. Average TFP growth rate in this study is consistent with results in Fuglie (2010) for West Asia (excludes Pakistan and Afghanistan) over the period 1961-2007. The TFP estimates for the region is greater than 1.1% estimated by Shahabinejad at al. (2010) for developing Eight (exclude Afghanistan, Iraq and Syria) for 199-2007 and greater than 1% calculated by Belloumi and Matoussi (2009) for this region exclude Afghanistan and Pakistan over 1970-2000.

Figure 3 illustrates Average Weighted TC, EC and TFP Growth Rate, for the region during the period 1980-2010.

Table 4- Technical Change, Efficiency Change and TFP growth rates (%)
Region: The Greater Middle East (Excludes Iraq) without Weather Variables - Period: 1980-2010

	TC			EC			TFP		
Country	1980-1989	1990-1999	2000-2010	1980-1989	1990-1999	2000-2010	1980-1989	1990-1999	2000-2010
Afghanistan	-0.42	-0.21	-0.22	-0.05	0.33	-0.23	-0.48	0.11	-0.45
Iran	2.76	3.27	3.50	0.03	0.11	0.12	2.80	3.39	3.63
Pakistan	2.07	2.89	3.05	-0.44	1.08	-0.11	1.62	3.97	2.94
Turkey	2.73	2.55	2.31	0.00	0.22	0.16	2.73	2.78	2.47
Syria	1.14	1.50	1.84	-0.00	-0.26	0.59	1.13	1.23	2.44
Greater Middle East	2.35	2.67	2.74	-0.04	0.36	0.40	2.31	3.03	3.14

Figure 3– Average Weighted TC, EC and TFP Growth Rate
Region: The Greater Middle East (excludes Iraq) - Period: 1980-2010



Estimation of growth decomposition in table 5 shows that the average output growth can be decomposed into a scale increase of 2.05% and a 0.74% increase in TFP. This indicates that, on average, TFP's contribution to the output growth for Iran, Turkey, Pakistan and Syria is 28%, 30%, 26% and 22% respectively. Innovations in Iran and Turkey seem to be important contributors to output growth.

Table 5 – Growth Decomposition (%)
Region: The Greater Middle East (Excludes Iraq) - Period: 1980-2010

Country	Output Growth	Input Change	EC Change	TC Change	TFP Change
Afghanistan	1.37	1.37	-0.692	0.684	0.00
Iran	4.25	3.09	0.159	1.006	1.16
Pakistan	3.44	2.52	-0.147	1.072	0.92
Turkey	1.93	1.33	-0.425	1.03	0.60
Syria	2.98	2.32	-0.238	0.90	0.66
Greater Middle East	2.80	2.06	-0.192	0.939	0.74

Figure 5- Average Efficiency Levels
Region: The Greater Middle East - Period: 1980-2010

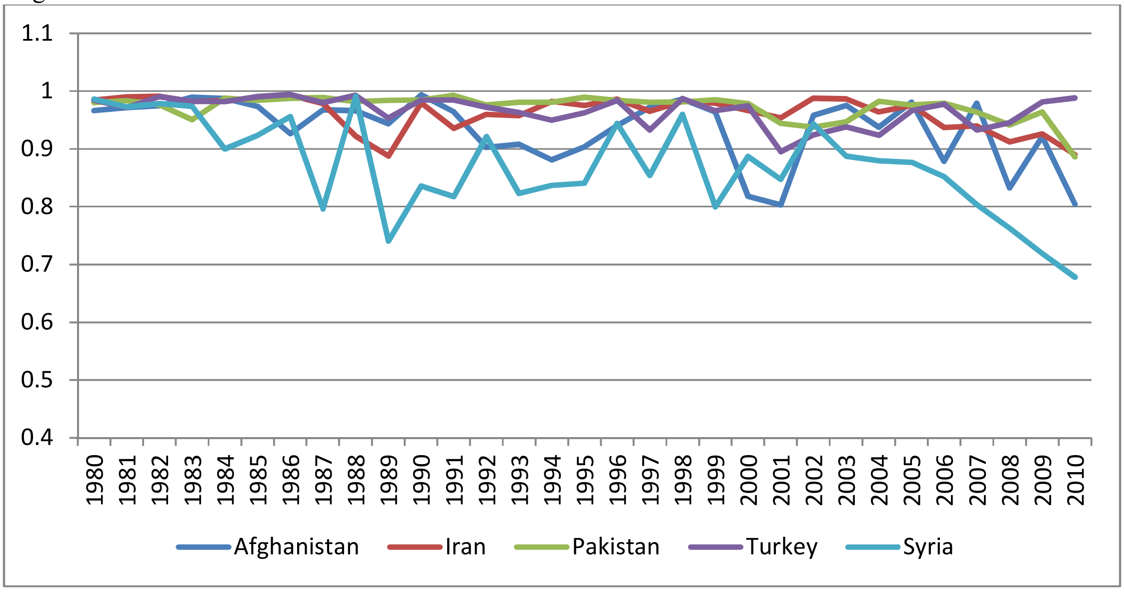
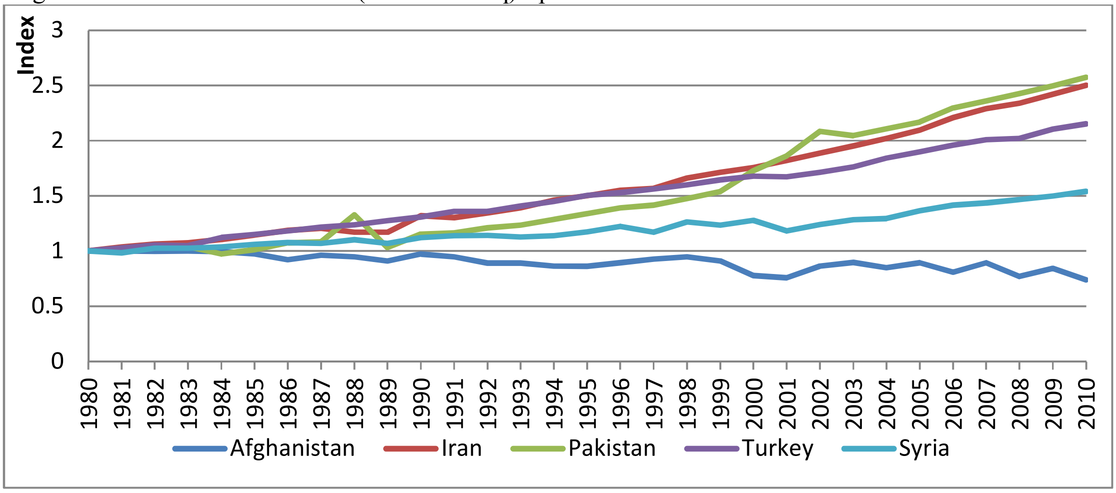


Figure 5 shows that among these five countries analyzed, Iran, Pakistan and Turkey have the most effective catching-up performance. On the other hand, Afghanistan and Syria are the most technically inefficient countries. Figure 6 shows the strong agricultural productivity performance of Iran, Pakistan and Turkey while Afghanistan seems to fall behind the other countries in the region.

Figure 6- TFP Index
Region: The Greater Middle East (Excludes Iraq) - period: 1980-2010



3.3.2. Agricultural Productivity Growth with Weather Variables

Average agricultural output growth for the region was 2.80% per year. Estimated TFP's growth rates are 2.66% per year during this period. Table 6 shows that Iran and Pakistan had the larger agricultural output growth rates. As TFP's growth rates are 3.34% for Iran and 2.81% for Pakistan. Afghanistan had the smallest output growth rates and negative TFP growth rates. Turkey's and Syria's TFP growth rates are 2.55 and 1.16, respectively. The average TFP growth for the region is greater, 2.66%, when weather variables are included than the 2.93% obtained without weather variables. Our estimates indicate that a 1% increase in precipitation increases output by 0.02 percent and a 1% increase in temperatures increase output by 0.5 percent.

The average output growth can be decomposed into a scale increase of 1.90% (1.901% of traditional inputs and 0.001% of weather inputs) and a 0.89% increase in TFP, table 6. This shows that, on average for the region, productivity increases are responsible for 31% of the output growth. Change in productivity account for 24% of output growth in Iran, 25% in Pakistan, 27% in Turkey, 20% in Syria and 1% in Afghanistan.

Table 6 – Growth Decomposition considering weather variables (%)
Region: The Greater Middle East (Excludes Iraq) - Period: 1980-2010

Country	Output Growth	Traditional Input Change	Weather Input Change	EC Change	TC Change	TFP Change
Afghanistan	1.37	1.36	0.000	-0.529	0.542	0.01
Iran	4.25	3.23	0.012	0.167	0.837	1.00
Pakistan	3.44	2.57	0.002	-0.028	0.889	0.86
Turkey	1.93	1.42	0.000	-0.417	0.927	0.51
Syria	2.98	2.36	0.001	-0.142	0.760	0.61
Greater Middle East	2.80	1.90	0.001	0.113	0.788	0.89

Figure 7 illustrates the evolution of the weighted average TC, EC and TFP growth rates, using output as weights, for the region. Based on Figure 8, Iran and Pakistan have the most and Afghanistan the least effective catching-up performance.

Figure 7 - Average TC, EC and TFP Growth Rates
Region: The Greater Middle East (excludes Iraq) - Period: 1980-2010

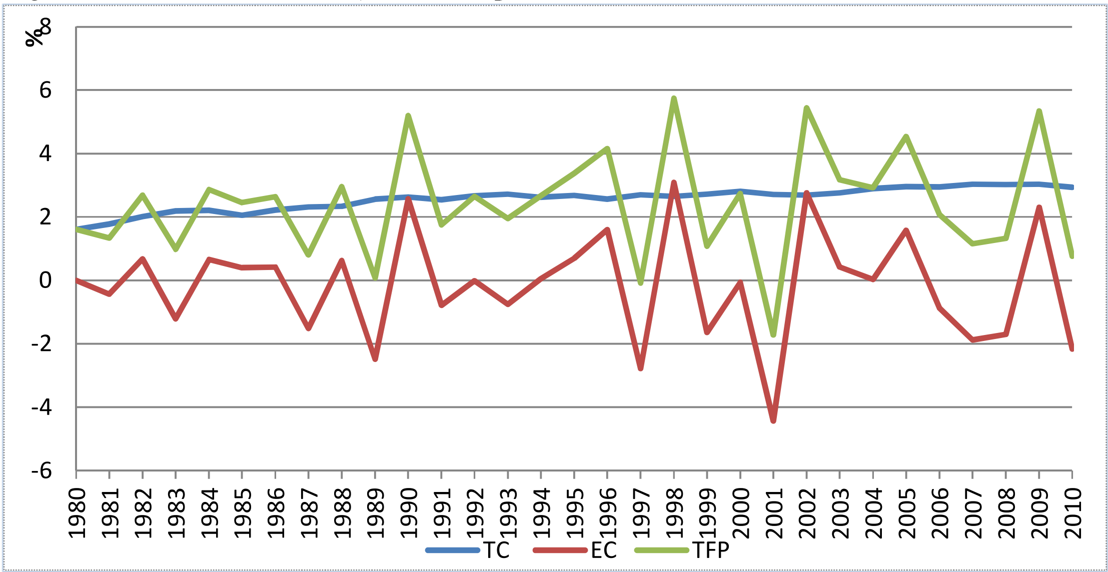


Figure 8- Average Efficiency Level
Region: The Greater Middle East (Exclude Iraq) - Period: 1980-2010

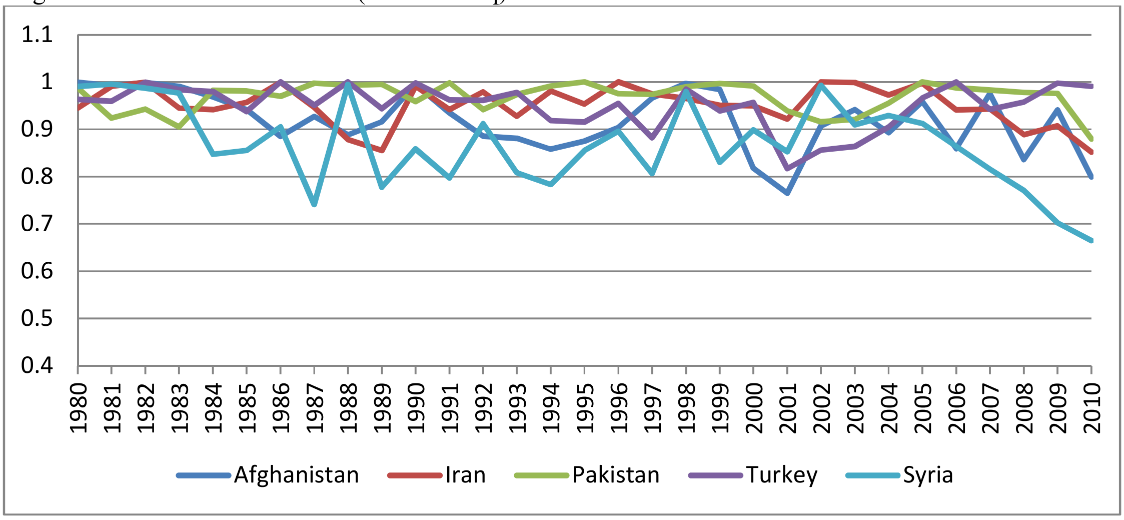


Figure 9 shows TFP indexes estimated for each country considering weather variables. Iran and Pakistan show the best performance followed by Turkey while Afghanistan shows the weakest performance.

Figure 9- TFP Index (1980=1) for Iran, Turkey, Afghanistan, Pakistan and Syria
Region: The Greater Middle East (excludes Iraq) - Period: 1980-2010

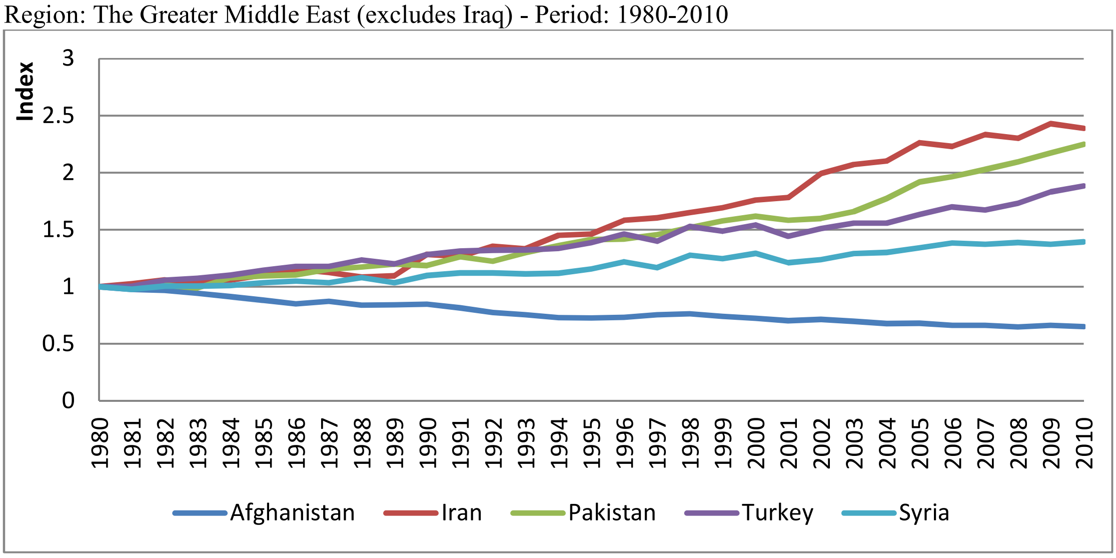


Table 7 shows TFP growth rate estimates incorporating weather variables by decades.

Table 7- Technical Change, Efficiency Change and TFP growth rates (%)
Region: The Greater Middle East (Excludes Iraq) with Weather Variables - Period: 1980-2010Table

	TC			EC			TFP		
Country	1980-1989	1990-1999	2000-2010	1980-1989	1990-1999	2000-2010	1980-1989	1990-1999	2000-2010
Afghanistan	0.05	-0.17	-0.62	-0.07	0.98	-0.51	-0.02	0.81	-1.13
Iran	2.85	3.34	4.04	0.05	0.43	-0.81	2.90	3.77	3.23
Pakistan	1.54	2.80	3.55	0.06	0.05	-0.66	1.60	2.85	2.90
Turkey	2.61	2.23	1.75	-0.03	-0.45	1.14	2.58	1.78	2.89
Syria	1.01	1.96	2.17	-0.24	0.89	0.39	0.77	2.85	2.56
Greater Middle East	2.17	2.66	2.89	0.2	-0.01	-0.22	2.37	2.64	2.67

TFP growth rates increased from 2.37 to 2.67 over the period 1980-2010. Technical change has been enhancing for most of the countries since 1980s and the major component to TFP growth rates.

As table 8 illustrates, technical change plays the main role in TFP growth (2.66% average per year versus 0.005% efficiency change). Iran has the highest average TFP growth rate, followed by Pakistan, Turkey and Syria.

Both estimations show that the region experienced an increase in TFP. With improvements in the 2000s with respect to previous decade.

Table 8 - Average TFP Growth Rate Estimates (%)
Region: The Greater Middle East (Excludes Iraq) - Period: 1980-2010

	Stochastic Frontier Approach without weather variables			**Stochastic Frontier Approach with weather variables**			
Country	**TC**	**EC**	**TFP**	**TC**	**EC**	**TFP**	**Output**
Afghanistan	-0.27	-0.05	-0.32	-0.13	0.08	-0.05	1.37
Iran	3.25	0.11	3.36	3.54	-0.18	3.34	4.25
Pakistan	2.89	0.40	3.29	2.83	0.00	2.81	3.44
Turkey	2.55	0.07	2.62	2.20	0.35	2.55	1.93
Syria	1.50	0.25	1.75	1.96	-0.80	1.16	2.98
Greater Middle East	2.64	0.29	2.93	2.66	0.00	2.66	2.80

TFP growth rates across the two estimations are lower for Iran, Pakistan, Turkey and Syria when including the weather variables and slightly higher for Afghanistan. As expected, when including weather variables the residual is smaller and the TFP growth rate estimated in this manner is also smaller. This does not mean that productivity was lower rather than we have an explanation (due to weather) for some of the residual output changes.

3.4. Agricultural Productivity Growth and Inefficiency Variables

Our objectives have been to estimate agricultural productivity considering weather variables in these set of countries and also to explore the potential role of institutional variables in explaining the discrepancy across countries. The results of the inefficiency effects model are shown in table C-appendix and table 9. The results show that secondary school enrollment, political and civil rights, trade openness, irrigation and drought are significantly associated with differential performance across countries. Life expectancy, minor and major conflicts and years since independence, although significant, do not have the expected impact on inefficiency.

Table 9- Inefficiency Effects Model (considering weather variables)
Region: The Greater Middle East (Excludes Iraq) - Period: 1980-2010

Variable	Coefficient	Standard Error	t value
Intercept	-0.6885	0.1011	-6.8110
Education	-0.0000	0.0000	-5.5317
PR&CR	-0.1542	0.0237	-6.4945
Independence	0.0023	0.0006	3.9719
Openness	-0.0016	0.0005	-3.2406
Life Expectancy	0.0069	0.0013	5.2322
Minor Conflict	0.0830	0.0213	3.8966
Major Conflict	0.1448	0.0257	5.6269
Drought	0.0066	0.0008	7.9901
Irrigation	-0.0002	0.0000	-5.1461

According to these results, there is a chance for all these countries to improve agricultural productivity by respecting political and civil rights and by opening up the economy to increasing trade. The negatively significant coefficient estimated for secondary school is important as it implies that policies which improve human capital affect agricultural productivity in this region.

The significant coefficient estimated for drought is also important since it indicates that in countries with extreme drought episodes agricultural performance suffers. We also find that the higher is the percentage of land irrigated the best the region performs.

4. Conclusion

The main objective of this study is to determine the potential impact of climate change and water scarcity on agricultural production for 5 countries in the Greater Middle East over the period 1980-2010. This is a region where food security and political stability have very much been affected by water availability and where droughts have the potential of inciting revolutions. A reduced form of the translog production function was used to estimate TFP over the period 1980-2010. Precipitation, temperature, drought and irrigation were considered in the productivity estimates. The results report increasing agricultural productivity during the period with an annual average of 2.66%. Productivity growth or innovations contributed approximately 30% of agricultural output growth, leaving the majority of this growth to be explained by growth in traditional inputs.

We also found that temperatures and precipitation play a positive significant role in agricultural production although their average contribution to output growth is small. Frequent extreme drought episodes and irrigation though have importantly affected differential agricultural performance in the region. Considering TFP growth, Iran (3.34) followed by Pakistan (2.81) and Turkey (2.55) have the best performance while Afghanistan (-0.05) has the worst.

In addition to drought and irrigation, the results highlighted that improvement in human capital; more respect for political rights and civil liberties and an open economy are associated to heterogeneous agricultural performance across countries in the sample.

References

Ahmad, K., Chaudhary, M.A., and Ilyas, M., (2008), “Trends in Total Factor Productivity in Pakistan Agriculture Sector”, *Pakistan Economic and Social Review*, 48 (2): 117-132.

Ahmed, S., (1987), “Pakistan, in: Productivity Measurement and Analysis: Asian Agriculture”, Asian Productivity Organization, Tokyo, 381-408.

Alauddin, M., Headey, D., Rao, D. S. P., (2005), “Explaining Agricultural Productivity Levels and Growth: An International Perspective”, Centre for Efficiency and Productivity Analysis, Working paper series no. 02.

Aldy, E.J., Krupnick, A.J., Newel, R.G., Parry, I.W., and Pizer, W.A., (2010), “Designing Climate Mitigation Policy”, RFF DP 08-16-REV, Washington, DC: Resources for the Future.

Ali, A., Khalid, M., and Muhammad, A.,. (2008) , “Total Factor Productivity (TFP) Growth in Agriculture in Pakistan: Trends in Different Time Horizons”, *Pakistan Journal of Agricultural Science*, 45(4): 508-513.

Ali, S., (2004), “Total factor productivity growth in Pakistan’s agriculture: 1960-1996”, *The Pakistan Development Review*, 43(4): 493-513.

Arnade, C., (1997),”Using a Programming Approach to Measure International Agricultural
Efficiency and Productivity”, *Journal of Agricultural Economic*s, 49:67-84.

Bharati, P., Fulginiti, L., (2007), “Institutions and Agricultural Productivity in Mercosur”, In: E.C. Teixeira and M.J. Braga, editors, Institutions and Economic Development, Viçosa, Brazil.

Battese, G.E., Rao, D.S.P., and O’Donnell, C., (2004). ‘A metafrontier production function for estimation of technical efficiencies and technology gaps for firms operating under different technologies’. *Journal of Productivity Analysis*, 21(1): 91–103.

Battese, G.E., Coelli, T.J., (1995), “A Model for Technical Inefficiency Effects in a Stochastic Frontier Production Function for Panel Data”, *Empirical Economics*, 20, 325-332.

Belloumi, M., and Matoussi, M.S., (2009), “Measuring agricultural productivity growth in MENA countries” Journal of Development and Agricultural Economics,1(4):103-113.

CIA World Factbook. https://www.cia.gov/library/publications/the-world-factbook/

Chaudhry, A.A., (2009), “Total Factor Productivity Growth in Pakistan: An Analysis of the Agricultural and Manufacturing Sectors”, *The Lahore Journal of Economics* 14:1-16.

Coelli, T.J., Rao, D.S., and Battese, G., (2005), “An Introduction to Efficiency and Productivity Analysis”, Second Edition.

Coelli, T. J., Rao, D.S., Prasada, D., (2003), “Total Factor Productivity Growth in Agriculture: A Malmquist Index Analysis of 93 Countries, 1980-2000”, CEPA Working Papers, School of Economics, University of Queensland, Brisbane, Australia.

Drine, I., (2011), Climate Variability and Agricultural Productivity in MENA region, world institute for development Economics Research, Working Papers No. 2011/96

Evenson, R. E. and Pray, C. E., (1991), “*Research and Productivity in Asian Agriculture”*, Ithaca, NY: Cornell University Press.

Food and Agriculture Organization of the United Nations, (2014), FAOSTAT database. http://www.fao.org/.

FAO (2001). *Climate Change: Implications for Food Safety*. FAO.

Freedom House. “Freedom in the World Country Rating”, http://www.freedomhouse.org/ratings/index.htm.

Fuglie, K. O., (2010), “Total Factor Productivity in the Global Agricultural Economy: Evidence from FAO Data”, Chapter 4: The Shifting Patterns of Agricultural Production and Productivity Worldwide, The Midwest Agribusiness Trade Research and Information Center Iowa State University, Ames, Iowa.

Fulginiti, L.E., Perrin, R. K., and Yu, B., (2004). "Institutions and agricultural productivity in Sub-Saharan Africa," Agricultural Economics, Blackwell, 31:169-180.

Fulginiti, L.E., and Perrin, R.K., (1999), “Have Price Policies Damaged LDC Agricultural Productivity?”, Journal of Economic Policy, 17:469-475.

Fulginiti, L.E., and Perrin, R.K., (1998), “Agricultural productivity in developing countries”, Journal of Agricultural Economics, 19: 45-51.

Fulginiti, L.E, and Perrin, R.K., (1997), “ LDC agriculture: Nonparametric Malmquist productivity indexes”, Journal of Agricultural Economics, 53: 373-390.

Fulginiti, L.E, and Perrin, R.K, (1993), “Prices and Productivity in Agriculture”, Review Economic Statistics, 75: 471-482.

Gallant, A. R., and Jorgenson, D. W., (1979), “Statistical inference for a system of simultaneous, non-linear, implicit equations in the context of instrumental variables estimation”, *Journal of Econometrics*, I I: 75-302.

International Panel on Climate Change (IPCC), The Regional Impact of Climate Change, http://www.ipcc.ch/ipccreports/sres/regional/index.php?idp=154

Kawagoe, T., and Hayami, Y., (1985), “An Intercountry Comparison of Agricultural Production Efficiency”, Journal of Agricultural Economics, 67: 87-92.

Kawagoe, T., Hayami, Y., and Ruttan, V., (1985), “The Intercountry Agricultural Production Function and Productivity Differences among Countries”, Journal of Development Economics, 19: 113-132.

Kibonge, A., (2013), "Essays on agricultural productivity in Sub-Saharan Africa", *ETD collection for University of Nebraska - Lincoln.*

Khani, H., Yazdani, Q. A., (2012), "Investigating the Total Factor Productivity in Agricultural Sector Using Growth Accounting in Iran", European Journal of Experimental Biology, 2 (1):17-23.

Lau, L., and Yotopolous, P., (1989), “The Meta-Production Function Approach to Technological
Change in World Agriculture”, *Journal of Development Economics*, 31:241-269.

Mohammadrezazadeh, N., Karbasi, A., and Purmoghaddam, A., (2012), "The Analysis of productivity growth of all production Elements in Iran,s Agriculture", 8th conference of Agricultural Economics of Iran, Shiraz, Iran.

National Climate Data Center (2014), NCDC data source. http://www.noaa.gov/

Nin, A., Arndt, C., and Preckel, P.V., (2003), “Is agricultural productivity in developing countries really shrinking? New evidence using a modified non-parametric approach”, Journal of Development Economics. 71:395-415.

Oliphant , W., (2007),” Understanding Afghanistan’s Recent Economic Development: A Comparative Analysis with Pakistan”, University of California-Irvine.

Parry, M.L., Rosenzweig, C., Iglesias, A., Livermore, M., and Fischer, G., (2004), “Effects of climate change on global food production under SRES emissions and socioeconomic scenarios”, *Global Environmental Change*, 14, 53–67.

Pfeiffer, L.M., (2003), “Agricultural Productivity Growth in the ANDEAN Community”, Proceedings issue of the American Journal of Agriculture Economics, 85 (5): 1335-1343.

Rao, D.S., Prasada, C.T., and Alauddin, M., (2004), “Agricultural productivity growth, employment and poverty in developing countries, 1970-2000”, Centre for Efficiency and Productivity Analysis (CEPA), Employment Strategy Paper no. 9/2004, School of Economics, University of Queensland, Brisbane, Australia.

Rezaei, J., Tavakoli Baghdadabad, M.R., and Faghihabadi, M., (2009), "An Evaluation of Changes in Total Productivity of Factors of Production in Iran's Agricultural Sector Using Non Parametric Methods", Iranian Journal of Rural and Development, 11(3): 97-122.

Schlenker, W., and Lobell, D.B., (2010), “Robust negative impacts of climate change on African agriculture”, *Environmental Research Letters*, 5(1).

Schlenker, W. and Roberts, MJ., (2009), “Nonlinear temperature effects indicate severe damages to U.S crop yields under climate change”, PNAS,106 (37): 15594-15598.

Shahabinejad, V., and Akbari, A., (2010), "Measuring agricultural productivity growth in Developing Eight", Iranian Journal of Development and Agricultural Economics, 2(9): 326-332.

Sivakumar, M.V.K., Das, H.P., and Brunini, O., (2005), “Impacts of present and future climate variability and change on agriculture and forestry in the arid and semi-arid tropics”, *Climatic Change*, 70: 31–72.

Tahamipour, M., and Shahmoradi, M., (2008), "Measuring Total Factor Productivity Growth in Agricultural Sector and Serving It’s Proportion of Added Value Growth", 6th conference of Agricultural Economics, Mashahd, Iran.

Tahamipor, M., Kazemnejad, M., and Moazeni, S., (2008), "Comprising TFP growth between economic sectors of Iran", Sixth conference of Agricultural Economics, Mashhad, Iran.

Tao, F., Yokozawa, M., Hayashi, Y., and Lin, E., (2003), “Future climate change, the agricultural water cycle, and agricultural production in China”, *Agriculture, Ecosystems & Environment*, 95: 203–15.

Trindade, F., Fulginiti, L.E., (2014), “Is there a Slowdown in Agricultural Productivity Growth in South America”, Department of Agricultural Economics, University of Nebraska-Lincoln.

Trueblood, M.A., (1996), “An intercountry comparison of agricultural efficiency and productivity”, PhD dissertation, University of Minnesota.

Trueblood, M.A., Coggins, J.,(1996), “Intercountry Agricultural Efficiency and Productivity: A Malmquist Index Approach, USDA/ERS/MTED/EAME.

World Bank, (2012), World development indicators, CD ROM, Washington, DC.

World Bank, (2013), http://data.worldbank.org/indicator/AG.LND.PRCP.MM

World Bank, (2013), Adaptation to Climate Change in the Middle East and North Africa Region,http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/0,,contentMDK%3A21596766~pagePK%3A146736~piPK%3A146830~theSitePK%3A256299,00.html

World Bank, (2013), Water Is Focus of Climate Change in Middle East and North Africa, http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/0,,contentMDK:21596757~pagePK:146736~piPK:146830~theSitePK:256299,00.html

Xiong, W., Matthews, R., Holman, I., Lin, E., and Xu, Y., (2007). "Modelling China's potential maize production at regional scale under climate change", *Climatic Change*, 85: 433–51.

Appendix: Tables

TABLE A: Parameter Estimate- Stochastic Frontier Approach (includes Iraq)

Coefficients	Estimate	std. Error	t value
(Intercept)	34.0805	1.4037	24.2792
X1	-0.0495	0.0070	-6.9816
X2	-2.6310	1.2589	-2.0892
X3	-4.2438	0.6611	-6.4193
X4	1.8774	0.8536	2.1994
X5	4.6190	1.0767	4.2899
X1sq	0.0501	0.0053	9.4528
X2sq	-0.3227	0.0862	-3.7436
X3sq	0.0310	0.1218	0.2552
X4sq	0.0654	0.1160	0.5637
X5sq	0.5758	0.0925	6.2248
X1X2	0.0523	0.0217	2.4101
X1X3	0.0189	0.0089	2.1235
X1X4	-0.0357	0.0660	-0.5409
X1X5	-0.0995	0.0534	-1.8632
X2X3	0.6143	0.3026	2.0300
X2X4	0.1187	0.2173	0.5462
X2X5	-0.7038	0.2517	-2.7961
X3X3	-0.2015	0.1097	-1.8368
X3X5	-01313	0.1036	-1.2673
X4X5	0.0482	0.0678	0.7109
T	-0.0927	0.0402	-2.3085
Tsq	0.0000	0.0001	-0.1245
TX1	0.0088	0.0018	4.8888
TX2	0.0088	0.0055	1.6000
TX3	0.0177	0.0029	6.1034
TX4	-0.0025	0.0035	-0.7142
TX5	0.00006	0.0027	0.0222
Z-Intercept	-0.9108	0.3253	-2.8001
Z1-Education	-0.0006	0.0004	-1.5044
Z2-PR&CR	-0.0000	0.0000	-2.1524
Z3-Independence	-0.0135	0.0038	-3.5307
Z4-Openness	-0.0082	0.0032	-2.5813
Z5-Life Expectancy	-0.0001	0.0002	-0.3539
Z6-Minor Conflict	0.0093	0.0034	2.7716
Z7-Major Conflict	-0.0677	0.0266	-2.5456
Z8-Irrigation	-0.0056	0.0019	-2.9193
Sigma sq	0.0051	0.0008	6.5103
Gamma	0.6928	0.1006	6.8841

X1: log of machinery, x2: log of land, x3: log of livestock, x4: log of fertilizer, x5:log of labor, T: time trend

TABLE B: Parameter Estimate- Stochastic Frontier Approach (Excludes Iraq)

Coefficients	Estimate	std. Error	t value
(Intercept)	137.7246	1.1276	122.1352
X1	2.3041	1.9748	1.1667
X2	-18.5639	3.4806	-5.3335
X3	-10.9820	1.2814	-8.5701
X4	-2.4097	1.8446	-1.3063
X5	11.5510	1.7515	6.5948
X1sq	-0.0532	0.0500	-1.0656
X2sq	0.7836	0.9367	0.8366
X3sq	0.5410	0.1459	3.7071
X4sq	-0.0512	0.0481	-1.0635
X5sq	0.5644	0.1200	4.7018
X1X2	0.3762	0.2231	1.6861
X1X3	-0.3027	0.0852	-3.5532
X1X5	0.0124	0.0523	0.2368
X2X3	0.8806	0.2975	2.9604
X2X5	-0.8826	0.2442	-3.6144
X3X3	0.1642	0.1300	1.2631
X3X5	-0.4832	0.0898	-5.3807
X4X5	0.0065	0.0604	0.1072
T	-0.0892	0.0946	-0.9432
Tsq	0.0000	0.0001	0.0213
TX1	0.0119	0.0031	3.8560
TX2	-0.0360	0.0108	-3.3166
TX3	0.0200	0.0033	6.0244
TX4	-0.0052	0.0054	-0.9542
TX5	0.0001	0.0037	0.0343
Z-Intercept	-0.9323	0.2473	-3.7703
Z1-Education	0.0000	0.0000	-2.1790
Z2-PR&CR	-0.1526	0.0617	-2.4739
Z3-Independence	-0.0035	0.0014	-2.4707
Z4-Openness	-0.0022	0.0007	-3.2842
Z5-Life Expectancy	0.0094	0.0026	3.5880
Z6-Minor Conflict	0.0503	0.0249	2.0157
Z7-Major Conflict	0.1122	0.0316	3.5536
Z8-Irrigation	-0.0005	0.0005	-1.1332
Sigmasq	0.0082	0.0016	4.9939
Gamma	0.9436	0.0310	30.4497

X1: log of machinery, x2: log of land, x3: log of livestock, x4: log of fertilizer, x5:log of labor, T: time trend

TABLE C: Parameter Estimate- Stochastic Frontier Approach (Considering weather variables)

Coefficients	Estimate	std. Error	t value
Intercept	139.5726	0.9950	140.2766
X1	8.3809	0.5659	14.8111
X2	-17.0284	0.9040	-18.8366
X3	-14.2974	0.6805	-21.0086
X4	11.1577	0.9504	11.7403
X5	15.0625	0.9380	16.0589
X6	1.5827	0.3791	4.1752
X7	3.7938	0.9952	3.8123
X1sq	0.0526	0.0154	3.4190
x2sq	0.0531	0.6222	0.0853
x3sq	0.6560	0.1308	5.0148
x4sq	-0.4147	0.0583	-7.1184
x5sq	0.8270	0.0850	9.7312
x6sq	-0.0087	0.0053	-1.6422
x7sq	-0.6897	0.2623	-2.6292
x1x3	-0.5420	0.0411	-13.1881
x1x5	0.2195	0.0253	8.6782
x1x7	-0.5209	0.0875	-5.9552
x2x3	1.2472	0.2712	4.5986
x2x4	0.6252	0.1492	4.1902
x2x5	-1.0826	0.1721	-6.2908
x2x6	0.0533	0.0270	1.9712
x2x7	0.4043	0.2466	1.6394
x3x4	0.4319	0.0751	5.7531
x3x5	-0.6909	0.0520	-13.2828
x3x6	-0.1162	0.0335	-3.4738
x3x7	0.3751	0.0912	4.1125
x4x5	-0.1914	0.0353	-5.4260
x4x7	0.8174	0.1390	5.8794
x5x7	-0.4981	0.1256	-3.9662
x6x7	0.0012	0.0349	0.0332
T	-0.2993	0.0680	-4.4003
Tsq	0.0000	0.0001	0.4908
TX1	0.0070	0.0026	2.6383
TX2	-0.0256	0.0103	-2.4725
TX3	0.0279	0.0022	12.5124
TX4	0.0077	0.0035	2.2126
TX5	-0.0049	0.0040	-1.2071
TX6	0.0005	0.0010	0.5264
TX7	0.0314	0.0064	4.9348
Z-Intercept	-0.6885	0.1011	-6.8110
Z1-Education	-0.0000	0.0000	-5.5317
Z2-PR&CR	-0.1542	0.0237	-6.4945
Z3-Independence	0.0023	0.0006	3.9719
Z4-Openness	-0.0016	0.0005	-3.2406
Z5-Life Expectancy	0.0069	0.0013	5.2322
Z6-Minor Conflict	0.0830	0.0213	3.8966
Z7-Major Conflict	0.1448	0.0257	5.6269
Z8-Drought	0.0066	0.0008	7.9901
Z9-Irrigation	-0.0002	0.0000	-5.1461
sigma sq	0.0086	0.0007	12.2982
Gamma	0.9699	0.0000	5397295.1

X1: log of machinery, x2: log of land, x3: log of livestock, x4: log of fertilizer, x5: log of labor, x6: log of precipitation, x7: log of temperature,T: time trend